



State of California

Employment Training Panel

Arnold Schwarzenegger, Governor

January 21, 2010

Myung Kim
Chief Executive Officer
ADCON Technical Institute, Inc. d.b.a. ATI College
1125 East 17th Street, Suite N251
Santa Ana, CA. 92701

Dear Mr. Kim:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET06-0294 for the period May 9, 2006 through May 8, 2008.

We did not receive a response to the draft audit report; therefore, our findings and recommendations remain unchanged.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758

Sincerely,

Original signed by

Stephen Runkle
Audit Manager

Enclosures

cc: Lisa Jee, Executive Director

SACRAMENTO CENTRAL OFFICE
1100 J Street, 4th Floor
SACRAMENTO, CA 95814
(916) 327-5640

N. HOLLYWOOD REGIONAL OFFICE
4640 Lankershim Blvd., Suite 311
NORTH HOLLYWOOD, CA 91602
(818) 755-1313

S.F. BAY AREA REGIONAL OFFICE
1065 East Hillsdale Blvd, Suite 415
FOSTER CITY, CA 94404
(650) 655-6930

SAN DIEGO REGIONAL OFFICE
5353 Mission Center Road, Suite 110
SAN DIEGO, CA 92108
(619) 686-1920

**ADCON TECHNICAL INSTITUTE, INC. d.b.a.
ATI COLLEGE**

Agreement No. ET06-0294

Final Audit Report

For The Period

May 9, 2006 through May 8, 2008

Report Published January 21, 2010

Stephen Runkle, Audit Manager
Telephone: (916) 327-4758

Audit Staff: Eric Khotpanya

Employment Training Panel
Audit Unit
1100 J Street FL 4
Sacramento CA 95814-2827

TABLE OF CONTENTS

	<u>Page Number</u>
AUDITOR'S REPORT	
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Audit Appeal Rights	3
Records	3
SCHEDULE 1 - Summary Of Audit Results	5
FINDINGS AND RECOMMENDATIONS	6
<u>ATTACHMENT</u>	
ATTACHMENT A - Appeal Process	
ATTACHMENT B - Table of Disallowed Trainees	

AUDITOR'S REPORT

Summary

We performed an audit of ADCON Technical Institute, Inc. d.b.a. ATI College's compliance with Agreement No. ET06-0294, for the period May 9, 2006, through May 8, 2008. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period July 27, 2009, through September 21, 2009.

According to Employment Training Panel (ETP) fiscal records, the Contractor earned a total of \$384,371 during the term of the Agreement. Our audit supported \$142,339 is allowable. The balance of \$242,032 is disallowed and must be returned to ETP. The disallowed costs resulted from 70 trainees who had unsupported class/lab training hours and 17 trainees who were placed in occupations not included in the Agreement. We also noted an administrative finding for inaccurate reporting of trainee wage rates.

AUDITOR'S REPORT (continued)

Background

Founded in 1998, ADCON Technical Institute, Inc., d.b.a. ATI College (ATI) is an affiliate of Adcon Computer Systems, which was established in 1985. ATI is headquartered in Norwalk and maintains a second training facility located in Tustin.

This was the third Agreement between ETP and ATI. This training project sought to promote the retention and expansion of California's manufacturing workforce. The Agreement targeted small to medium-sized companies that needed to upgrade the skills of their employees to address pressure from out-of-state and international competitors. The proposed training plan targeted workers in need of advanced training in Computer Skills. Therefore, this Agreement provided for training in Advance Technology, Computer Skills, and Literacy Skills.

This Agreement allowed ATI to receive a maximum reimbursement of \$833,620 for retraining 470 trainees. During the Agreement term, the Contractor placed 184 trainees and earned \$384,371.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of ATI. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that ATI complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

AUDITOR'S REPORT (continued)

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$142,339 of the \$384,371 earned by the Contractor under this Agreement is allowable. The balance of \$242,032 is disallowed and must be returned to ETP.
Views of Responsible Officials	The audit findings were discussed with Lisa Jee, Executive Director, at an exit conference held on July 29, 2009 and via e-mail on December 8, 2009. A draft audit report was issued to the Contractor on December 21, 2009. The Contractor did not respond in writing to the draft audit report.
Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
Records	Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

AUDITOR'S REPORT (continued)

Stephen Runkle
Audit Manager

Fieldwork Completion Date: September 21, 2009

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET06-0294 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

ADCON TECHNICAL INSTITUTE, INC. d.b.a. ATI COLLEGE

AGREEMENT NO. ET06-0294
FOR THE PERIOD
MAY 9, 2006 THROUGH MAY 8, 2008

	<u>Amount</u>	<u>Reference*</u>
Training Costs Earned During Agreement	<u>\$ 384,371</u>	
Disallowed Costs:		
Unsupported Class/Lab Training Hours	242,032	Finding No. 1
Ineligible Trainee Occupation	-	Finding No. 2
Inaccurate Reporting	-	Finding No. 3
Total Costs Disallowed	<u>\$ 242,032</u>	
Training Costs Allowed	<u><u>\$ 142,339</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 1 – Training records maintained by ADCON Technical Institute, Inc. d.b.a. ATI College (ATI) did not support paid training hours for 4 Unsupported Class/Lab Training Hours Job No. 1 trainees, 22 Job No. 2 trainees, and 44 Job No. 3 trainees. As a result, for the Job No. 1 trainees, unsupported training hours were disallowed at the rate of (\$13 per hour + support costs), for the Job No. 2 trainees, at the Small Business rate of (\$20 per hour + support costs), and, for Job No. 3 trainees, at the Advance Technology rate of (\$20 per hour + support costs) + (marketing costs included in Job No. 3 only). Total disallowed costs claimed for these trainees = \$242,032.

Title 22 California Code of Regulations (CCR), Section 4442(a) requires the Contractor to maintain and make available records that clearly document all aspects of training. All classroom/laboratory training records must include hours of attendance and dates of training, be certified daily by the instructor during training, signed (or initialed) daily by the trainee, and signed by the trainer for each type of training.

Paragraph 2(a.1) of the Agreement states: “Reimbursement for class/lab and videoconference training for trainees in Job Number 1 and 2 [Job No. 3 was added in Amendment No. 1] will be based on the total actual number of training hours completed by training delivery method for each trainee, up to the maximum specified in Chart 1, providing the minimum and no more than the maximum hours are met.” Exhibit A, Chart 1 of the Agreement requires that Job No. 1 and 2 trainees complete between 24 to 180 class/lab hours, and that Job No. 3 trainees complete between 24 to 200 class/lab hours.

Paragraph 5(a.1) of the Agreement states in part that, “Records must be retained within the control of the primary Contractor and be available for review at the Contractor’s place of business within the State of California...”

Our initial audit sample for the testing of class/lab training hours included 18 random/statistical selections (3 Job No. 1 trainees, 8 Job No. 2 trainees, and 7 Job No. 3 trainees), along with 1 judgmental/non-statistical Job No. 2 trainee. Due to missing class/lab rosters for all or a part of their reported training dates, ETP Auditor found that original rosters maintained by ATI only supported the training hours paid by ETP for 12 of the 18 random/statistical trainees. Thus, based on the initial random/statistical sample audit results, 2 of 8 Job No. 2 trainees (25 percent) and 4 of 7 Job No. 3 trainees (57 percent) were disallowed. The table below shows the statistical result of our testing.

FINDINGS AND RECOMMENDATIONS (continued)

Initial Sample Job No. 1, 2, and 3 Trainees			
	Job No. 1 32	Job No. 2 84	Job No. 3 68
Trainees Placed			
Random Statistically Selected Trainees [a]	3	8	7
Random Statistically Selected Trainees Disallowed [b]	0	2	4
Error Rate [b] ÷ [a]	0%	25%	57%
Non-Random Selected Trainees [c]	0	1	0
Non-Random Selected Trainees Disallowed [d]	0	0	0
Total Trainees Audited [a] + [c]	3	9	7
Total Audited Trainees Disallowed [b] + [d]	0	2	4

During the audit, based on the error rates shown above that resulted from initial testing of original ATI rosters performed on-site at the Contractor's place of business, ETP auditor made photo copies of all existing ATI rosters maintained for this Agreement for continued review upon return to ETP. With good cause to believe that a significant overpayment had occurred, in lieu of expanding the audit sample and extrapolating a probable error rate based on the initial and expanded audit sample results, ETP Auditor then performed a 100 percent review of the photocopied ATI rosters for the remaining 29 Job No. 1 trainees, 76 Job No. 2 trainees, and 61 Job No 3 trainees placed by ATI.

Overall, based on the 100 percent review of all existing rosters maintained by ATI, ETP auditor found that class/lab rosters were missing for all or a part of the reported training dates for 4 Job No. 1 trainees, 22 Job No. 2 trainees, and 44 Job No. 3 trainees. Attachment A, Table of Disallowed Trainees, details the paid training hours, disallowed training hours, audited training hours, and resulting disallowed costs for all 70 trainees noted above.

Recommendation ATI must return \$242,032 to ETP. The Contractor should ensure that training records support hours submitted for reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 –
Ineligible Trainee
Occupation

ATI received reimbursement for 17 Job No. 3 trainees who were not employed in occupations specified in the Agreement. We previously disallowed 100 percent of training costs claimed for these 17 trainees in Finding No. 1. Thus, we noted zero disallowed training costs claimed for these trainees.

Exhibit A, paragraph VII. A. of the Agreement states, "Employment for each trainee shall be in the occupations listed in [the Agreement]...." The only occupation identified in the Agreement for Job No. 3 was programmer. Furthermore, Exhibit A, page 7 of the Agreement also states, "Only programmers can receive Advance Technology training under Job Number 3."

Employer information obtained via Employment Verification Questionnaires identified 17 Job No. 3 trainees who were not employed as programmers. The following table shows the job title, as provided by the employer, for the 17 trainees.

Trainee No.	Job No.	Position Title
2	3	Coordinator
4	3	Accountant
6	3	Accountant
9	3	Custom Broker Manager
11	3	Ocean Dept Manager
12	3	HR Staff
14	3	Beauty Consultant / Sales
17	3	Custom Broker Coordinator
18	3	Supervisor
19	3	Marketing Manager
40	3	Beauty Consultant / Sales
41	3	Beauty Consultant / Sales
42	3	Accounting Manager
57	3	Manager
62	3	HR Manager
65	3	Supervisor
66	3	Supervisor

Recommendation ATI should ensure all trainees are employed in occupations specified in the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Trainee hourly wage rates reported by ATI on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, Paragraph VII.A of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on employer responses for 10 of the 18 initial random sample trainees for whom Employment Verification Questionnaires were mailed. Trainee wage rates reported by ATI varied by 5 percent or more from actual wage rates for 5 of the 10 trainees (50 percent).

Recommendation ATI should ensure all trainee wage rate data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A – Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006